DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

April 10, 1998

ASSISTANT SECRETARY

The Honorable John M. McHugh
Chairman
Subcommittee on the Postal Service
Committee on Government Reform and Oversight
U.S. House of Representatives
Washington, D.C. 205156143

Dear Mr. Chairman:

This letter presents the views of the Treasury Department on the proposed revision to H.R. 22, the "Postal Reform Act of 1997." We have several concerns about the financial provisions included in the revision, which would substantially alter the borrowing, banking and investment practices of the Postal Service. We take no position. however, on the antitrust and competitiveness issues addressed by the legislation.

The revision would divide the operations of the Postal Service into three separate components: (1) Non-Competitive Postal, which would continue to be financed through the existing Postal Service Fund; (2) Competitive Postal, which would be financed through a newly created Competitive Products Fund in the Treasury; and (3) Non-Postal, which would be financed by a newly created corporation, the shares of which would be owned by the Competitive Products Fund. Although the revision attempts to segregate the finances and operations of the three components through the use of certain "firewalls," the proposed changes nevertheless raise numerous concerns.

Borrowing. The revision would permit the Postal Service to borrow money for its Competitive Products Fund from the market, rather than continue borrowing from the Treasury. We object to that provision because we believe that it would result in increased borrowing costs to the Postai Service. In accordance with longstanding Federal financial policies, Federal entities, such as the Postal Service, should borrow solely from the Treasury because that is the cheapest, most efficient method of financing such debt.

We also object to the borrowing provisions that would permit the Competitive Products Fund to borrow from the Postal Service Fund on an unsecured basis. We believe that the interfund loans should be subject to established Federal credit standards, which are designed to minimize Federal exposure to loss.

Investment. The proposed revision would permit the Postal Service to borrow on behalf of the Competitive Products Fund in two ways: (1) from the market, at preferential rates due to a perceived Government guarantee of the debt; and (2) from the Postal Service Fund, at an interest rate equal to the prevailing yield on comparable Treasury securities. The Competitive Products Fund could then invest any excess monies in the "Non-Postal" corporation; that corporation, in turn, could then invest in individual private companies. This scenario ultimately would allow the Postal Service to borrow at low Government rates and invest at potentially higher rates. Although the revision attempts to limit investment in private equities to the Non-Postal corporation, the corporation's ownership by the Competitive Products Fund and its financial links to the Postal Service would create a situation where the increased risks undertaken by the Non-Postal corporation would ultimately be borne by taxpayers.

We believe that, in accordance with long-standing Treasury investment policy, any excess funds held by the Competitive Products Fund or the Non-Postal corporation should be invested in non-marketable special Treasury securities, which were specifically created for use by Government accounts. Such investments provide maximum safety, a wide range of maturities, and facility for prompt redemption.

Banking. The proposed revision would permit the Postal Service to deposit funds from the Competitive Products Fund outside of the Treasury, without the Secretary of the Treasury's approval. In addition, the Postal Service would be permitted to move its funds in and out of the Competitive Products Fund at its sole discretion. Under existing law, the Postal Service banks at the Treasury, and may not deposit funds outside of the Treasury without the Secretary of the Treasury's approval. As a matter of sound Government fiscal policy, this arrangement is necessary to allow centralized management of the Government's cash balances. If the financial exemptions and privileges proposed for the Postal Service were to become a precedent for all Federal agencies, Treasury's borrowing costs would be increased, and its cash management and forecasting abilities would be weakened. The Postal Service provisions cannot be considered in isolation. If other Federal entities were granted similar authorities as sought for the Postal Service, the adverse consequences on Treasury's management of Government funds would be severe.

Non-Postal Corporation. Although the revision classifies the new Non-Postal corporation as a private corporation, we view that entity as an on-budget Federal agency. As such, it should be required to borrow, bank, and invest with the Treasury and should be subject to the Federal oversight and regulations that govern such agencies. The Non-Postal corporation should be viewed as a Federal agency because it would be solely owned by the Competitive Products Fund, and would thereby have strong links to the Postal Service, which is a Government entity; non-Governmental ownership is not contemplated for the entity. Moreover, the Non-Postal corporation would have a Federal charter, and would be authorized to conduct postal business, which is perceived as a governmental function.

In conclusion, Treasury cannot support the financial provisions included in the proposed revision to H.R. 22. These provisions violate long-standing Federal financial policies designed to minimize taxpayer exposure to loss, and to ensure the least expensive and most efficient financing for Federal and Federally-assisted programs. We understand that the Postal Service has submitted a letter to the Subcommittee that discusses the financial relationship between the Postal Service and the Treasury Department. We intend to respond to the Postal Service's letter in a separate staff document. We would like to note, however, that we recently received very positive feedback from the Postal Service about its borrowing relationship with the Treasury.

The Office of Management and Budget has advised that there is no objection from the standpoint of the Administration's program to the presentation of this report. Thank you for your consideration of our views.

Sincerely,

Gary Gensler
Assistant Secretary
(Financial Markets)

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